

Message Text

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44

ACTION EUR-12

INFO OCT-01 EA-09 NEA-10 IO-13 ISO-00 EURE-00 SSO-00

NSCE-00 USIE-00 INRE-00 AID-05 CIAE-00 EB-07 FRB-01

INR-07 NSAE-00 XMB-04 OPIC-06 SP-02 CIEP-02 LAB-04

SIL-01 OMB-01 NSC-05 SS-15 STR-04 CEA-01 DODE-00

PM-04 H-02 L-03 PA-02 PRS-01 /122 W

----- 107905

O R 221818Z JUL 76

FM AMEMBASSY LONDON

TO TREASURY DEPT WASHDC IMMEDIATE

SECSTATE WASHDC 3893

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY NEW DELHI

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

AMCONSUL BELFAST

AMCONSUL EDINBURGH

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USDEL MTN GENEVA

USDOC WASHDC

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DEPARTMENT PASS FRB

TREASURY FOR DONALD SYVRUD, OASIA

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E.O. 11652: N/A

TAGS: ECON, UK, EFIN, EAID

SUBJECT: CHANCELLOR ANNOUNCES BILLION POUND REDUCTION IN EXPENDITURE AND SIZEABLE REDUCTION IN BORROWING REQUIREMENT IN FY 77/78

SUMMARY: CAPPING A WEEK OF ACRIMONIOUS DEBATE AND HARD SELL, THE CHANCELLOR OF THE EXCHEQUER ANNOUNCED THAT 1.012 BILLION POUNDS (1976 SURVEY PRICES) WOULD BE CUT FROM PLANNED PUBLIC EXPENDITURE IN THE 1977/78 FISCAL YEAR. THIS, TOGETHER WITH A PAYROLL TAX INCREASE' WOULD REDUCE THE PUBLIC SECTOR BORROWING REQUIREMENT FOR FY 1977/78 TO 9.0 BILLION POUNDS. HEALEY TOLD THE COMMONS THAT A MONEY SUPPLY (M3) GROWTH SHOULD AMOUNT TO ABOUT 12 PERCENT DURING THE CURRENT FISCAL YEAR. REACTION TO THE CUTS WAS PREDICTABLE, RANGING FROM EXASPERATION ON THE LABOR LEFT TO A GENERAL WELCOME AMONG THE TORIES. IN A MOVE TO DEMONSTRATE HMG'S COMMITMENT TO INDUSTRIAL REGENERATION AND EMPLOYMENT, HE SAID THAT UNEMPLOYED SCHOOL LEAVERS WOULD RECEIVE ASSISTANCE IN OBTAINING EMPLOYMENT WHILE A SERIES OF MEASURES RANGING FROM A FURTHER RELAXATION IN THE PRICE CODE TO ADDED FUNDS FOR THE NATIONAL ENTERPRISE BOARD WOULD BE TAKEN TO STIMULATE INVESTMENT. ON THE FOREIGN EXCHANGE MARKETS, STERLING FELL AS INITIAL REACTION AMONG DEALERS REFLECTED THE UNCERTAINTY AS TO WHETHER THE CUTS, TAX INCREASE AND MENTION OF AN EXPLICIT MONEY SUPPLY FIGURE WOULD BE ENOUGH TO EASE THE EXPECTED STRAIN ON AVAILABLE RESOURCES AS THE UK RECOVERY SPEEDS UP LATE THIS YEAR AND IN EARLY 1977. END SUMMARY

1. IN HIS STATEMENT TO THE PARLIAMENT, THE CHANCELLOR MADE THE FOLLOWING POINTS CONCERNING THE U.K. ECONOMIC SITUATION AND PROSPECTS:

1. EXPECTS GDP TO INCREASE OVER THE 18 MONTHS FROM THE FIRST HALF OF 1976 AT AN ANNUAL RATE OF 5 PERCENT.
2. EXPORTS OF GOODS AND SERVICES OVER THE SAME PERIOD TO INCREASE BY 11 PERCENT.
3. THE ABOVE COULD IMPLY A RATE OF INCREASE IN MANUFACTURING PRODUCTION PERHAPS AS MUCH AS 9 PERCENT.

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4. UNEMPLOYMENT TO START FALLING BEFORE THE END OF 1976.
5. THE 12 PERCENT DEVALUATION OF STERLING WILL WORSEN THE BALANCE OF PAYMENTS IN THE SHORT-TERM MAKING IT MORE NECESSARY THAN EVER TO MAINTAIN THE CONFIDENCE OF THOSE FROM WHOM THE UK MAY HAVE TO BORROW TO FINANCE THE EXTERNAL DEFICIT.
6. THE INCREASE IN EXPORTS AND IMPORT SUBSTITUTION

DERIVING FROM INCREASED COMPETATIVENESS (DUE TO DE-
VALUATION) WILL LATER BRING MASSIVE IMPROVEMENT TO

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ACTION EUR-12

INFO OCT-01 EA-09 NEA-10 IO-13 ISO-00 EURE-00 EB-07 SSO-00

NSCE-00 USIE-00 INRE-00 AID-05 CIAE-00 FRB-01 INR-07

NSAE-00 XMB-04 OPIC-06 SP-02 CIEP-02 LAB-04 SIL-01

OMB-01 NSC-05 SS-15 STR-04 CEA-01 DODE-00 PM-04 H-02

L-03 PA-02 PRS-01 /122 W

----- 108152

O R 221818Z JUL 76

FM AMEMBASSY LONDON

TO TREASURY DEPT WASHDC IMMEDIATE

SECSTATE WASHDC 3894

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY NEW DELHI

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

AMCONSUL BELFAST

AMCONSUL EDINBURGH

USMISSION EC BRUSSELS

USMISSION OECD PARIS

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THE BALANCE OF PAYMENTS.

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7. CASH LIMITS ALREADY ANNOUNCED WILL ENSURE THAT EXPENDITURE IN FY 76/77 IS STRICTLY CONTAINED.
 8. PUBLIC SECTOR BORROWING REQUIREMENT FOR FY76/77 ESTIMATED AT 11-1/2 BILLION POUNDS; 1/2 BILLION POUNDS LESS THAN APRIL BUDGET ESTIMATE.
 9. PUBLIC SECTOR BORROWING REQUIREMENT INTENDED TO BE REDUCED IN FY 77/78 TO 9 BILLION POUNDS OR LESS.
 10. THE GOVERNMENT WILL ALSO WATCH VIGILANTLY THE NEED FOR ANY EXTENSION OF ITS EXISTING SELECTIVE IMPORT RESTRAINTS TO PROVIDE TEMPORARY PROTECTION TO VIABLE INDUSTRIES FACED WITH UNFAIR FOREIGN COMPETITION...ALREADY TAKEN ACTION AND ARE ANXIOUS TO DISCUSS WITH BOTH SIDES OF INDUSTRY THE NEED FOR FURTHER ACTION OF THIS KIND.
 11. THE CHANCELLOR ESTIMATED THAT THE TOTAL IMPACT OF THE CUTS WOULD BE TO INCREASE THE LEVEL OF EMPLOYMENT BY 60,000 AND RAISE RETAIL PRICES BY 1 PERCENT DURING THE YEAR TO MARCH 1978.
2. DENIS HEALEY ANNOUNCED THAT CUTS TOTALLING 1.012 BILLION POUNDS (1976 SURVEY PRICES) WILL BE MADE IN PUBLIC EXPENDITURE PLANNED FOR THE FISCAL YEAR BEGINNING APRIL 1, 1977. THE CUTS ARE SUMMARIZED IN THE FOLLOWING TABLE.

| 1977 78: PUBLIC EXPENDITURE PROGRAMMES POUNDS MILLIONS AT 1976 SURVEY PRICES | | | | |
|---|---------|------|-------|--|
| TOTAL FY77-78 CHANGES FY77-78 | | | | |
| BUDGETARY EX. ANNOUNCED EXPENDITURE | | | | |
| PENDITURE PRIOR ON AFTER | | | | |
| TO ANNOUNCED | 7/22/76 | CUTS | | |
| | | CUTS | | |
| 1. DEFENCE | 5,644 | .100 | 5,544 | |
| 2. OVERSEAS AID AND OTHER OVERSEAS SERVICES | 1,275 | - 5 | 1,270 | |
| 3. AGRICULTURE, FISH- ERIES, FOOD AND FORESTRY | 851 | .105 | 746 | |
| 4. TRADE, INDUS- TRY AND EMPLOY- MENT | 2'601 | -105 | 2,496 | |

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| | | | |
|---|--------|------|--------|
| 5. NATIONALISED INDUSTRIES CAPITAL | | | |
| EXPENDITURE | 3,310 | -157 | 3'153 |
| 6. ROADS AND TRANSPORT | 2,487 | - 87 | 2,400 |
| 7. HOUSING | 4,435 | 146 | 4,289 |
| 8. OTHER ENVIRONMENTAL SERVICES | 2'467 | - 81 | 2,386 |
| 9. LAW, ORDER AND PROTECTIVE SERVICES | 1.833 | 0 | 1'833 |
| 10. EDUCATION AND LIBRARIES, SCIENCE AND ARTS | 7,362 | - 30 | 7,332 |
| 11. HEALTH AND PERSONAL SOCIAL SERVICES | 6,608 | - 70 | 6'538 |
| 12. SOCIAL SECURITY | 11,559 | - 21 | 11,538 |
| 13. OTHER PUBLIC SERVICES | 835 | 0 | 835 |
| 14. COMMON SERVICES | 807 | - 10 | 797 |
| 15. NORTHERN IRELAND | 1,597 | - 35 | 1,562 |

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ACTION EUR-12

INFO OCT-01 EA-09 NEA-10 IO-13 ISO-00 EURE-00 EB-07 SSO-00

NSCE-00 USIE-00 INRE-00 AID-05 CIAE-00 FRB-01 INR-07

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OMB-01 NSC-05 SS-15 STR-04 CEA-01 DODE-00 PM-04 H-02

L-03 PA-02 PRS-01 /122 W

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O R 221818Z JUL 76
FM AMEMBASSY LONDON
TO TREASURY DEPT WASHDC IMMEDIATE
SECSTATE WASHDC 3895
INFO AMEMBASSY BERN
AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY COPENHAGEN
AMEMBASSY DUBLIN
AMEMBASSY LUXEMBOURG
AMEMBASSY NEW DELHI
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY STOCKHOLM
AMEMBASSY THE HAGUE
AMEMBASSY TOKYO
AMCONSUL BELFAST
AMCONSUL EDINBURGH
USMISSION EC BRUSSELS
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USDOC WASHDC

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TOTAL PROGRAMMED
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| | | | |
|------------------|--------|------|--------|
| EXPENDITURE | 53'671 | -952 | 52'719 |
| TOTAL PROGRAMMES | 53,671 | | 52,719 |
| CONTINGENCY RE- | | | |
| SERVE | 706 | | 706 |
| ,OTAL | 54,377 | | 53,425 |

THE CHANCELLOR EMPHASIZED THAT THE LEVEL OF UK OVERSEAS AID WOULD NOT BE REDUCED. IN ADDITION NO CUTS WOULD BE MADE IN THE LEVEL OF TRANSFER PAYMENTS. POSITIVE ACTION WOULD BE ANNOUNCED TO REDUCE THE RECORD NUMBER OF UNEMPLOYED SCHOOL LEAVERS. SINCE TOP PRIORITY IS BEING ACCORDED TO THE REGENERATION OF BRITISH INDUSTRY, ADDITIONAL RESOURCES WOULD BE MADE AVAILABLE TO THE NATIONAL ENTERPRISE BOARD (NEB) AND THE WELSH AND SCOTTISH DEVELOPMENT AGENCIES. HE ALSO ANNOUNCED A FURTHER RELAXATION OF THE PRICE CODE REGULATIONS GOVERNING THE PERCENTAGE OF NEW INVESTMENT WHICH COULD BE USED FOR ALLOWABLE PRICE INCREASES. THIS PERCENTAGE, NOW AT 20 PERCENT WAS TENTATIVELY INCREASED TO 35 PERCENT IN THE PROPOSED PRICE CODE REVISIONS OF LAST MONTH. THE CHANCELLOR FURTHER IN.

CREASED THE FIGURE TO 50 PERCENT.

3. PUBLIC SECTOR BORROWING REQUIREMENT.

AS A RESULT OF THE MEASURES ANNOUNCED, EXPENDITURE CUTS TOTAL 952 MILLION POUNDS. IN ADDITION TO THESE DIRECT CUTS, THE CHANCELLOR ESTIMATED THAT:

- 1: THE CUTS WOULD RESULT IN A SAVING OF 60 MILLION POUNDS ON DEBT INTEREST IN FY 77/78.
- 2: THE TOTAL PUBLIC EXPENDITURE SAVING WILL THEREFORE BE 1 012 MILLION POUNDS.
- 3: THIS WILL REDUCE THE PSBR IN FY 77/78 BY ABOUT 800 MILLION POUNDS.
- 4: IN ORDER TO REDUCE THE PSBR TO 9 BILLION POUNDS (ITEM 9 PARA. 1), FURTHER ACTION IS NEEDED IN THE TAX FIELD. HOWEVER, INCREASES IN DIRECT OR INDIRECT TAXES WOULD ADD TO INFLATION. THEREFORE, GOVERNMENT IS ADDING 2 PERCENTAGE POINTS TO EMPLOYEES' NATIONAL INSURANCE CONTRIBUTION (READ PAYROLL TAX), EFFECTIVE APRIL 6TH 1977. ... THIS WILL REDUCE THE PSBR BY 700 MILLION POUNDS IN FY 77/78.
- 5: A PSBR OF 9 BILLION POUNDS IN FY 77/78 WOULD BE UNCLASSIFIED

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ABOUT 6 PERCENT OF GDP AT CURRENT MARKET PRICES, COMPARED WITH 9 PERCENT FORECAST FOR THIS YEAR AND 10 PERCENT LAST YEAR.

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ACTION EUR-12

INFO OCT-01 EA-09 NEA-10 IO-13 ISO-00 EURE-00 EB-07 SSO-00

NSCE-00 USIE-00 INRE-00 AID-05 CIAE-00 FRB-01 INR-07

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OMB-01 NSC-05 SS-15 STR-04 CEA-01 DODE-00 PM-04 H-02

L-03 PA-02 PRS-01 /122 W
----- 108155

O R 221818Z JUL 76
FM AMEMBASSY LONDON
TO TREASURY DEPT WASHDC IMMEDIATE
SECSTATE WASHDC 3896
INFO AMEMBASSY BERN
AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY COPENHAGEN
AMEMBASSY DUBLIN
AMEMBASSY LUXEMBOURG
AMEMBASSY NEW DELHI
AMEMBASSY PARIS
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USMISSION OECD PARIS
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4. COMMENT

A) WHAT IS UNEXPECTED IN THE PACKAGE IS THE INCREASE IN THE PAYROLL TAX, THE INDICATION OF EXPECTED MONEY SUPPLY GROWTH OF 12 PERCENT IN THE CURRENT FISCAL YEAR, AND EASING OF THE PRICE CODE. THE CHANCELLOR IS THEREBY TACKLING REDUCTION OF THE PSBR BOTH THROUGH CUTTING EXPENDITURE AND INCREASING RECEIPTS. WHILE THE INCREASED EMPLOYERS' PAYROLL TAX CONTRIBUTION WILL INCREASE WAGE COSTS AND CUT PROFITS, THIS WILL BE OFFSET TO SOME EXTENT BY EASING PRICE CODE PROVISIONS.

B) THE CHANCELLOR ALSO INDICATED THAT ANY INCREASE IN BANK LENDING SHOULD BE DIRECTED TO PRIORITY BORROWING, EXPORTS' IMPORT SUBSTITUTION, INVESTMENT AND PRODUCTIVE INDUSTRY. THE GOVERNOR OF THE BANK OF ENGLAND

WILL TELL THE BANKS TO CAREFULLY MONITOR NON-PRIORITY LENDING. WHILE THIS IS A REPITITION OF EXISTING POLICY, SOME BANKERS ARE WONDERING WHAT COMES NEXT (IF ANYTHING).

C) INITIAL FOREIGN EXCHANGE MARKET SENTIMENT WAS UNENTHUSIASTIC, THE POUND FALLING FROM \$1.7870 TO \$1.7820; IE, 1/2 CENT DECLINE WITH MUCH OF THE SELLING PRESSURE REPORTED FROM NEW YORK. FOREIGN EXCHANGE DEALERS HERE CONSIDER THAT "FRIDAY COULD BE HAIRY," AS THE MARKETS DIGEST THE MEASURES AND THEIR IMPACT. INITIAL OFF-THE-CUFF COMMENTS INCLUDED THE WRONG THINGS WERE CUT; IE, NOT ENOUGH FROM SOCIAL SERVICES. TO A COMMENT THAT A BILLION POUNDS IN CUTS IN 1976 SURVEY PRICES ARE NOT EQUAL TO A BILLION POUNDS IN CUTS RIGHT NOW. ONE DEALER THOUGHT THE MARKET WAS PERHAPS FOCUSING TOO MUCH ON THE CUTS RATHER THAN ON THE ENTIRE PACKAGE AND THE GREATER THAN EXPECTED REDUCTION IN PSBR. NONE OF THOSE SPOKEN TO HOWEVER WAS WILLING TO GIVE A CONSIDERED JUDGMENT ON SUCH SHORT NOTICE, INDICATING IT WOULD BE NECESSARY TO WAIT AND SEE.

ARMSTRONG

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Message Attributes

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ISecure: 1
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Margaret P. Grafeld
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US Department of State
EO Systematic Review
04 MAY 2006

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TAGS: ECON, EFIN, EAID, UK
To: TRSY
STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006